Instituto de Estudios Superiores de Administración

Structured Financing as a Means to Raise Long Term Capital in Latin America

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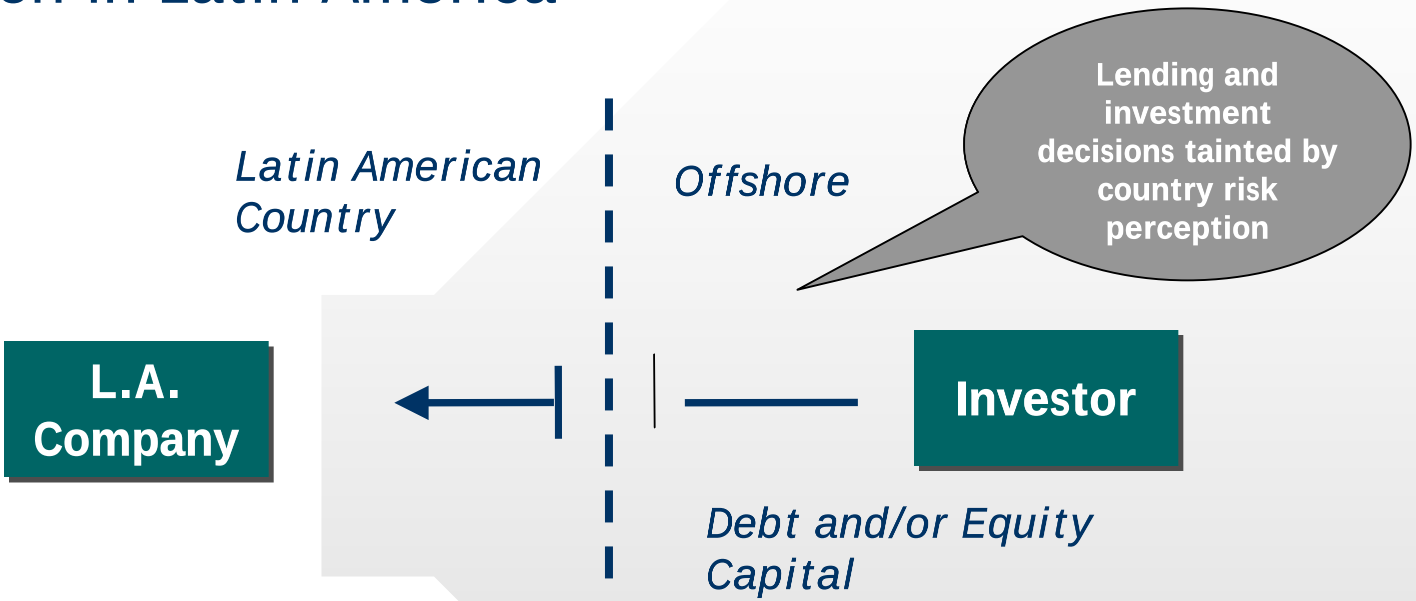
Situation in Latin America



<u>Latin American companies today are faced with :</u>

Chronic shortage of foreign financing and investment capital.

High degree of country risk perception.

Undeveloped local capital markets (with some notable exemptions).

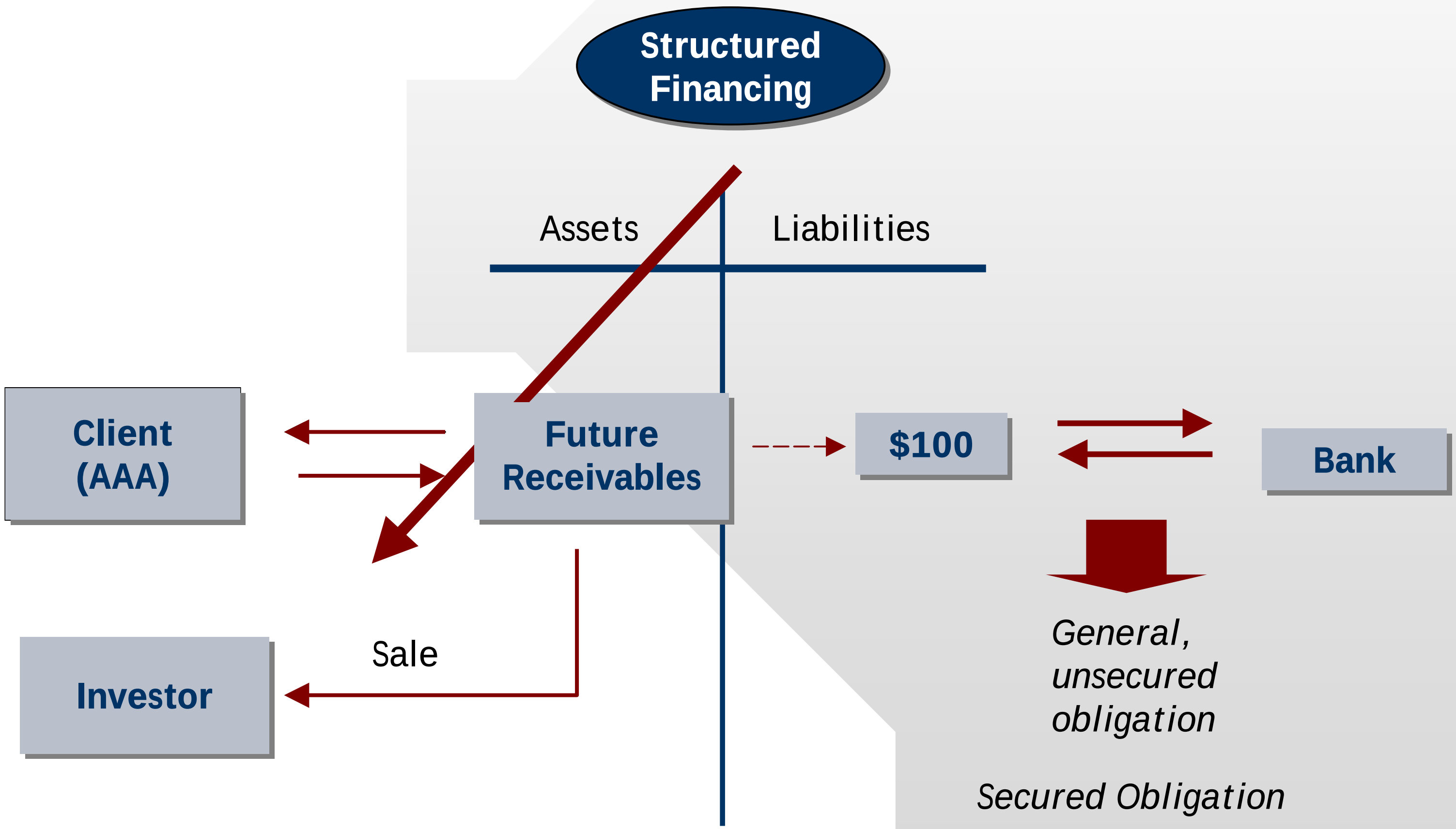
When foreign financing is available, it tends to be expensive and of short tenor.

The relevant elements of country risks being:

- Unstable macroeconomic conditions (e.g. inflation, devaluation).
- Institutional weakness.
- Political risk.
- Lack of favorable regulatory and legal framework.
- Poor credit quality.

Latin America companies can raise cost effective, long term financing

How? : By developing and implementing creative structure financings.



What is a Structured Finance transaction?

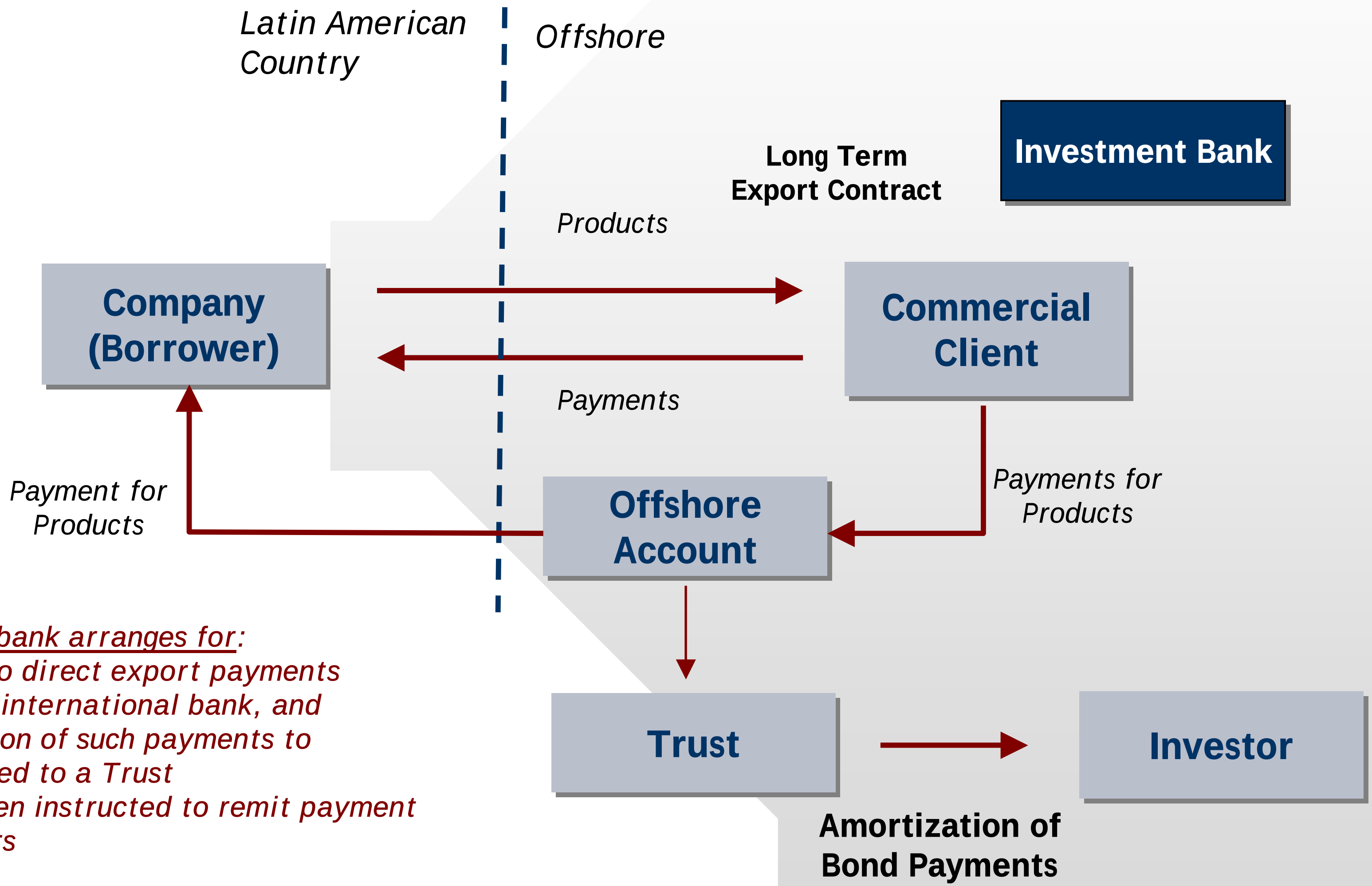
- A structured finance is a financing mechanism in which the risk of repayment of a proposed debt is separated from the borrower's unsecured risk.
- By segregating the underlying financial risks, we reduce the risk profile of the transaction for the lender and/or investor.
- By relaying on crossborder assets and/or revenues, we further mitigate the country element.

Types of Structured financings:
Asset securitization (both for existing and future assets of the issuer).
Project Finance.
A/B Loan from multilateral agencies (Inter American Development Bank, The International Finance Corporation and CAF).

A structured finance transaction is the one that allows a company to:

- Raise funds at a cost which is below its unsecured cost of debt.
- Obtain a rating above its own corporate rating (or even above the rating of the underlying sovereign).
- Secure longer term financings,
- Raise funds where otherwise would not be viable.
- Arrange off-balance sheet financings (not always possible).

For example...



Investment bank arranges for:

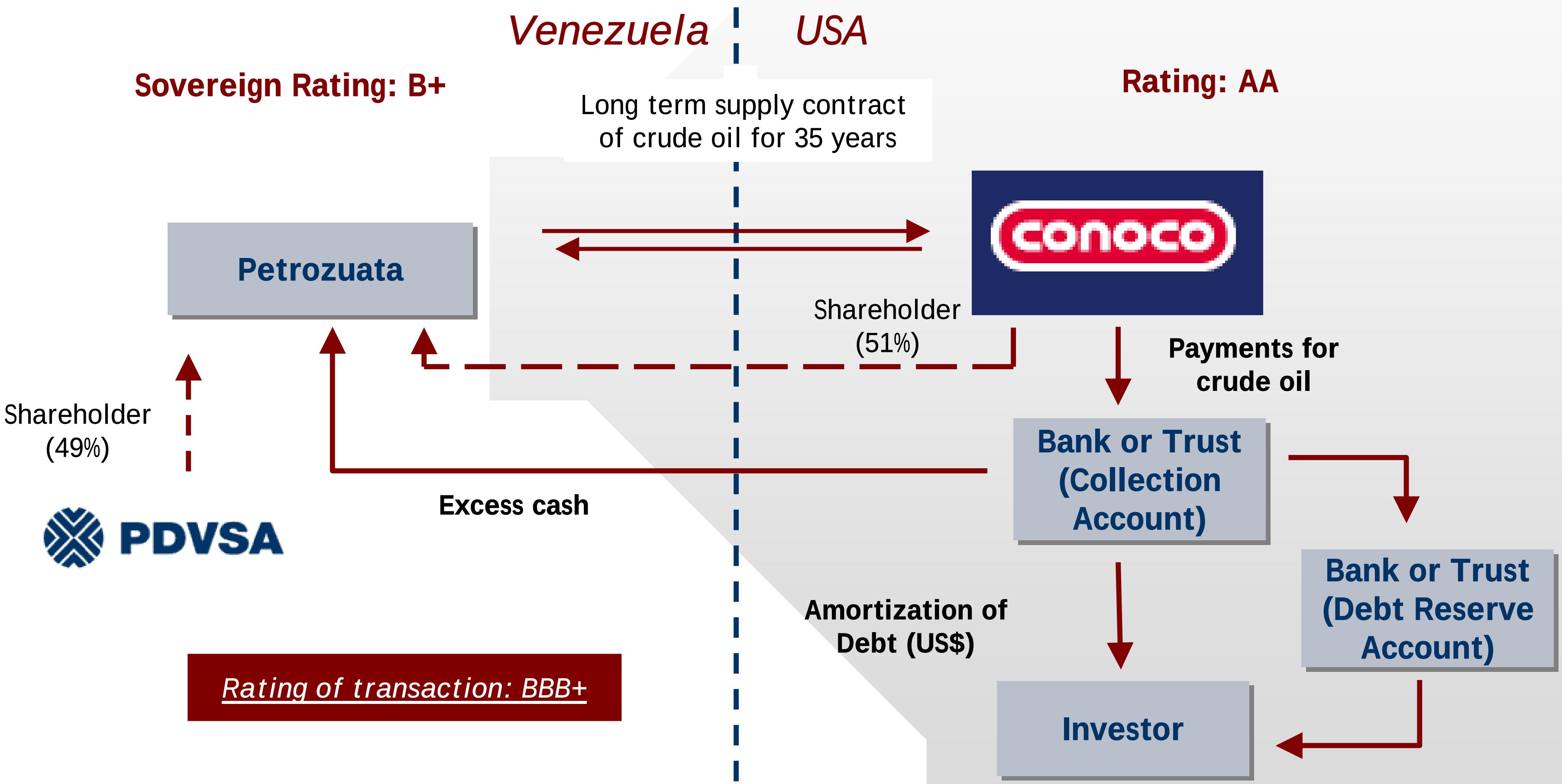
- *Company to direct export payments through an international bank, and*
- *For a portion of such payments to be redirected to a Trust*
- *Trust is then instructed to remit payment to investors*

The risk profile of the transaction has changed for the investor:

- Payment risk is that of the international commercial client.
- Currency convertibility and transferability risk are mitigated.
- Performance risk is still the Company's.
- Credit risk has also been mitigated.

Investor is more comfortable with new risks…

Case Study:
Petrozuata Project Financing in Venezuela
US$2.4 billion heavy oil refinery



Elements of country and commercial risks are segregated…

- Investor assumes payment risk of Conoco (today ConocoPhillips)→off-taker of plant products
- Performance risks remains Petrozuata's.
- Crude oil price is mitigated through reserve accounts and overcollateralization.
- Country risk is mitigated by virtue of involvement of PDVSA as a sponsor and other contractual arrangements (supply contract of gas and as off-taker of the crude oil).

Rating criteria by Rating Agencies

Standard & Poor´s

Country Risk Classification

- AAA
- AA → *DuPont*
- A
- BBB+ → *Petrozuata*
- BBB
- BBB-

Investment grade

- - - - - - - - - - - - - - -

Speculative grades

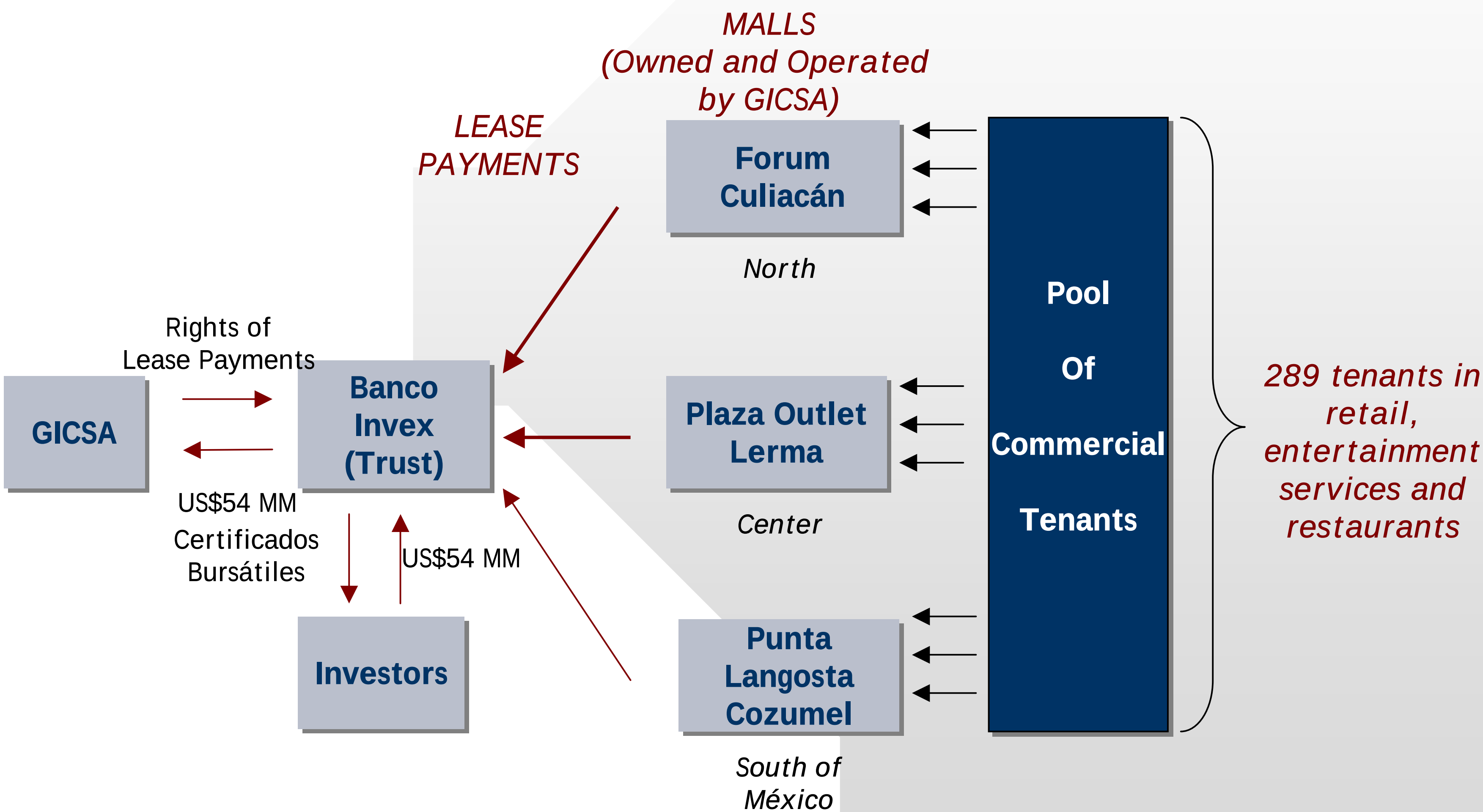
- BB
- B → *Venezuela (country ceiling)*
- CCC

Most Emerging Countries

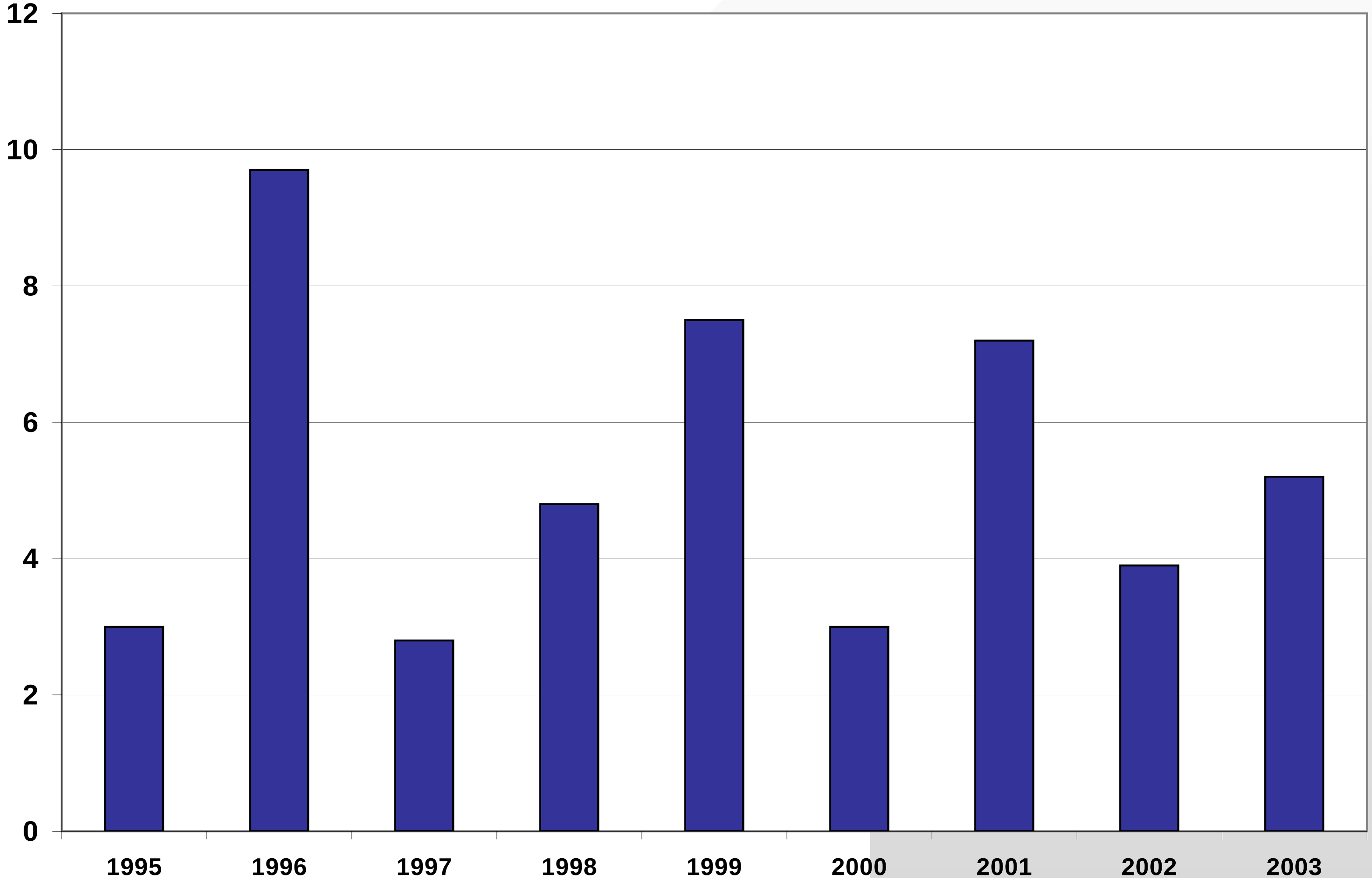
How are risks mitigated?

- Devaluation → Conoco receivables are denominated in dollars and kept off-shore to serve debt.
- Exchange control → same as above
- Competition → Conoco guarantees purchase of plant production.
- Oil price risk → offshore account and overcollateralization.
- Political risk → PDVSA involvement as shareholder and supplier.

Case Study: GICSA Commercial Real Estate Structured Transaction (US$54 Million)



Volume of structured financings in Latin America (in Billions of US$)



Source: Fitch Ratings

Type of structured transactions in Latin America (by asset and sector)

- Export receivables.
- Tax receipts.
- Credit card receivables.
- Airline ticket sales.
- Dollar remittances.
- Real estate leases.

- Oil and gas.
- Mining.
- Steel.
- Consumer.
- Banking.
- Airline.
- Telecommunications.

Practical advice on how to develop structured financings in your company

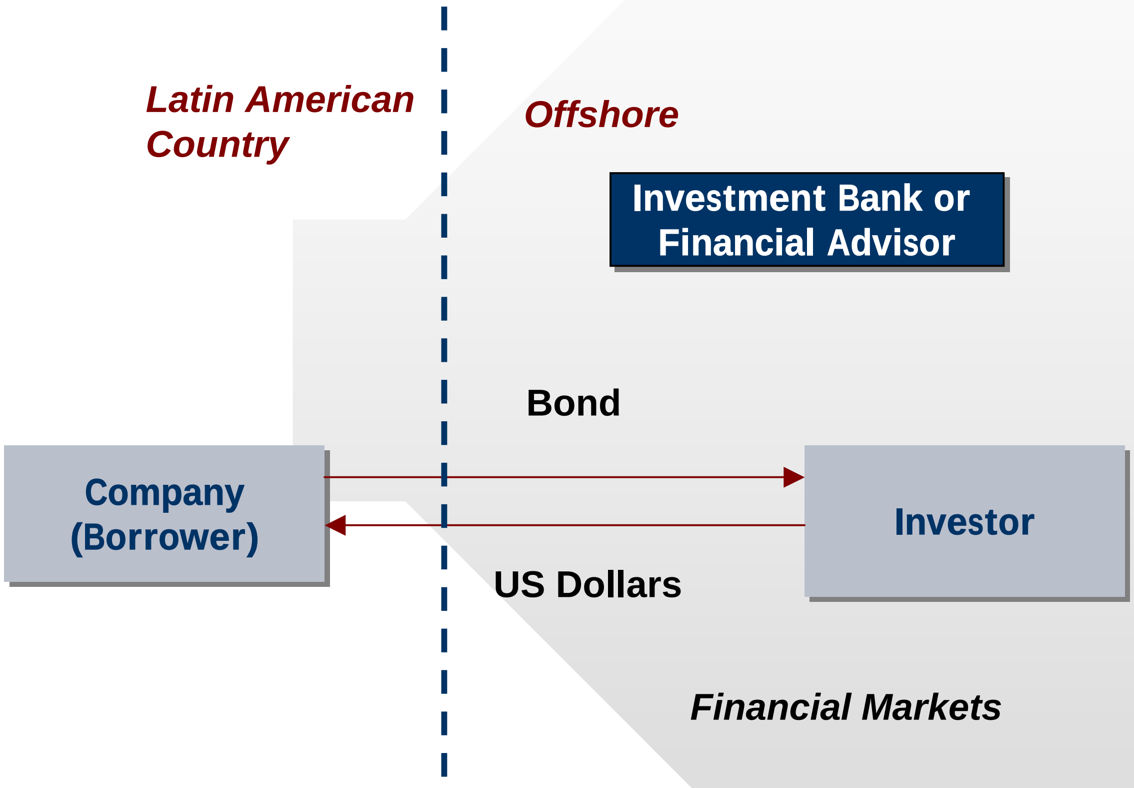
- Identify assets of your company that could be subject to structured financing, e.g.
  - Receivables from well rated companies.
  - A well diversified receivables pool.
  - Commercial relationship with the host Government.
- Develop a structure to separate the cash flows of such assets from your company's.
- Establish suitable collections accounts, debt reserve and overcollateralization structure.
- Include legal provisions.
- Make sure structure removes assets (and cash flows) from other creditors in case of bankruptcy proceedings.
- Aim for significant reduction compared to unsecured cost of debt.

END OF PRESENTATION

Why Structured Financings?

- It is an efficient and viable mean to lower cost of capital.
- It helps reduce corporate risks.
- It optimizes use of scarce corporate resources.

For example…



<u>Assuming the financial obligation issued by Company is unsecured:</u>

– The source of repayment is its capacity to generate free cash flows.
– The general obligation is pari passu with other unsecured credits of the Company.
– Investor assumes full country and credit risk.